

## Belarusian Monthly Economic Review

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- Gazprom intends selling gas to Belarus in 2007 at market prices.
- Slowing down of economic growth.
- Temporary suspension of production at Belaruskali.
- Restriction of consumer goods import.
- Reduction of VAT share in consolidated revenues.
- Increase of investment crediting.
- Inflow of Russian capital to the Belarusian banking system.

### Politics: Gazprom intends selling gas to Belarus in 2007 only at market prices

Belarus and Russia continue to discuss the issue of gas price for Belarus in 2007. At the end of April Gazprom stated that in 2007 the price would be at least three times higher. Belarusian government reacted by making its own offers. It declared that it would agree to 11 per cent price rise. The government also stated that it would consider swapping 50% of Beltransgaz stock for the assets of Russian gas extracting companies. It would ensure the access of Belarus to gas reserves and to its extraction in Russia. On June 1, another meeting of Beltransgaz, Belarusian government representatives and Chairman of Gazprom Board was held. It was stated that the position of the Russian company on gas deliveries to Belarus at market prices remained unchanged. The success of the Belarusian party to negotiate a favorable price will much depend on the readiness of Belarusian authorities to increase Gazprom's influence on gas transit by means of selling a share of Beltransgaz assets.

### Real sector: Slowdown of economic growth

According to the official statistics, in Jan–Apr GDP grew by 10.2% yoy, which is 0.7 percentage point less than in Jan–Mar. The growth rate fell in all key sectors of the economy. In industry it dropped from 13.6% yoy in Jan–Mar to 12.3% yoy in Jan–Apr, in agriculture – from 10.1 to 9.5% yoy, in construction – from 14.4 to 13.7%, in trade – from 21.4 to 19.2% yoy. In industry, the growth rate fell in all main branches. Additionally, inventories became quite large: in light industry and machine building inventories were a few times higher than a monthly output.

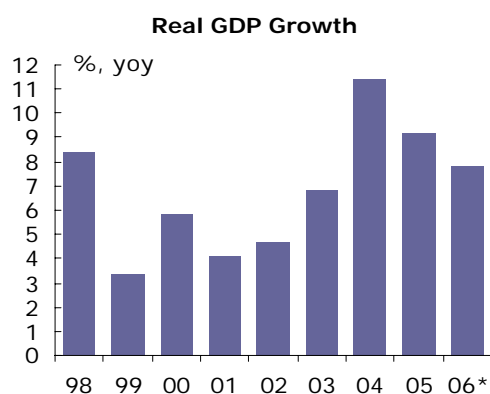
Slower economic growth has not had an impact on the state of labor market yet. Moreover, in April, the number of registered unemployed went down by 1'000 persons and amounted to 71'800 or 1.6% of labor force. At the same time according to the household budget survey conducted by the Ministry of statistics and analysis the number of unemployed in the beginning of 2006 was about 300'000 persons. Hence, the majority of unemployed are not registered in the employment agencies.

### Structural trends: Partial suspension of production at Belaruskali

**Labor market.** In May the National Assembly adopted a new version of the Law "On employment" in the second reading. In spite of the fact that just a small number of people are registered as unemployed, the law contains a few measures, which may lead to further reduction of registered (and socially protected) unemployment. In particular, the draft law contains the norm according to which a person can be a registered as unemployed no more than three years. Besides, if a person rejects a job offer a person can be cancelled from the list of unemployed.

**Government regulation.** One of the biggest Belarusian exporters Belaruskali faced the consequences of government

Population: 9.75 m  
Industry/GDP: 27.4%  
Agriculture/GDP: 7.5%  
Investment/GDP: 23.3%  
Export destination: Russia 36%, EU 44%  
Import origin: Russia 61%, EU 21%



\* Own estimates.

Source: Ministry of Statistics and Analysis.



intervention in potash fertilizer export. In 2005 this company refused to use intermediary services of Mezhdunarodnaya Kalyinaya Kompaniya (MKK) and began to export its goods through "Belorusskaya Kaliynaya Kompaniya" (BKK) which was set up upon the order of the Belarusian president. Its founders are Belaruskali and Uralkali (Russia). Price policy and lobbying potential of BKK does not let it to agree on the price and terms of trade with China, which is one of the biggest importers of potash fertilizers. As a result, their export (its share in the output is more than 90%) dropped considerably (by 33.7% yoy in the 1<sup>st</sup> quarter of 2006). In order to avoid accumulation of excessive inventories, the production at the two out of four ore deposit was suspended. It led to the reduction of output by 9.6% yoy in Jan–Mar and by 52.7% yoy in April 2006.

### External trade: Restriction of consumer goods import

In the 1<sup>st</sup> quarter of 2006, the balance of merchandize trade turned negative and amounted to USD -154.6 m (it was USD 445.9 m a year earlier). The deterioration of the foreign trade was due to much higher growth rate of imports compared to the growth rate of exports (51.1 and 27.5% correspondingly), which is due to the low base in 2005 and faster recovery of imports. It reflects the lowering competitiveness of Belarusian producers and their dependence on imported raw materials. The government is planning to improve the trade balance at the expense of administrative measures. In particular, the government passed the decision to reduce consumer goods import and to increase the control over using intermediary and investment import in order to achieve positive balance in merchandize and services trade in the amount of USD 290 m.

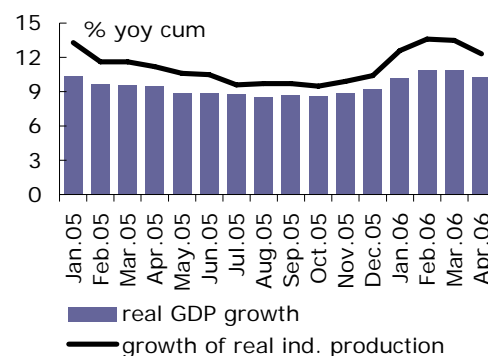
However, it is unlikely that the measures to reduce consumer goods import will be effective. Its share is just 16.4% of all import, which is much lower than in neighboring countries. Intermediary goods make the biggest share of Belarusian import (73.7%). The government believes that these goods are not effectively used to enhance export orientation of the country. The exception can be energy import. Its share is 39.5%. In spite of the government's attempts, investment import remained low (8.7% of total import). It neither stimulates modernization of fixed capital nor increases competitiveness of Belarusian goods.

### Public finance: Reduction of VAT share in consolidated revenues

In March, consolidated revenues fell to 49.2% of GDP (52.0% of GDP in March 2005). The expenditures went up and reached 51.0% of GDP (49.3% of GDP in March 2005). As a result, in March the fiscal deficit of 1.8% of GDP appeared (the surplus of 2.7% of GDP a year earlier). The growth of expenditures partially reflects the fact that in the last year the budget did not anticipate high revenues coming due to the change of VAT payment regime in trade with Russia. The fiscal deficit in March was mainly financed by the decrease of the government deposits by BYR 116.3 bn.

In March, the share of VAT in revenues fell considerably (by 1.8% of GDP compared to March 2005) and reached 8.9% of GDP. It is due to exports increase and subsequent increase of VAT refunding from the budget (in the beginning of 2005 it was much lower). While in Jan–Mar export grew by 27.5% yoy the VAT refunding at zero VAT rate went up by 51.6% yoy. Due to the reduction of the aggregate rate of turnover taxes from 3.9% in 2005 to 3% in 2006 the revenues from these taxes also fell. The growth of excise revenues occurred after passing the decree according to which from January 1, 2006 excise rates on a few major goods were increased.

### GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

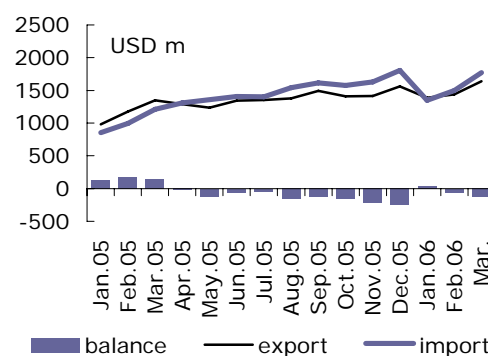
### Contribution to Industrial Output Growth

Branches of industry:	Jan–Apr 2006	
	Growth rate*	Contribution**
electric power	10.9	0.8
fuel	22.6	4.8
ferrous metallurgy	11.7	0.5
chemical and petrochemical industry	1.6	0.2
machinery and metalworking	15.0	3.0
logging, woodworking, pulp and paper	4.7	0.2
building materials	12.9	0.3
light	3.3	0.1
food	7.8	1.1
other	10.6	1.3
<b>Industry, total</b>	<b>12.3</b>	<b>12.3</b>

\* % yoy; \*\* percentage points.

Source: Own calculations based on the Ministry of Statistics and Analysis data.

### Merchandise Trade



Source: Ministry of Statistics and Analysis.

### Share of Merchandize Groups in Imports

Merchandize groups of imports	Jan-Mar 06	Jan-Mar 05
Investment	8.7	7.6
Intermediary	73.7	73.8
Including		
Energy	39.5	35.7
Other	34.2	38.1
Consumer	16.4	18.0
Including		
Food	6.9	8.4
Non-food	9.5	9.6

Source: Ministry of Statistics and Analysis.

**Monetary policy: Increase of investment crediting**

In April, households kept strong demand for foreign currency. As a result, the NBB as in the previous month sold hard currency to meet the demand for it. Net foreign assets of the monetary authorities decreased by 0.5% mom. To stimulate crediting of the economy the NBB increased money supply via deposit money banks refinancing (by 15.5% mom). Money supply also increased at the expense of lowering the government deposits in the NBB (by 14.3% mom) in order to finance the fiscal deficit. As a result, in April monetary base grew by 7.3% mom and in annual terms it went up by 58.7% yoy (52.7% yoy in March).

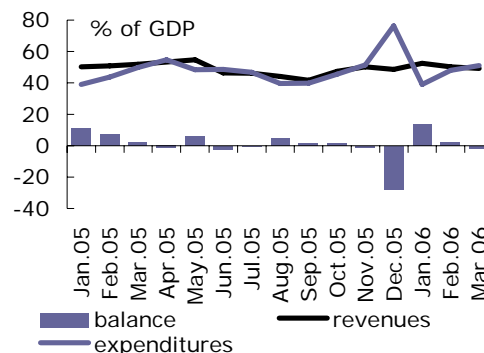
Credit expansion of the NBB led to the increase of credit resources supply by banks. The government's stimulation of enterprise investment activities led to higher demand for long-term credits. That is why in April loans outstanding continued to grow both in nominal terms (by 2.9 percentage points, their growth rate reached 40.9% yoy) and in real terms (by 2.2 percentage points to 31.4% yoy). Interest rates practically did not change. The interest rate spread also remained unchanged as banks were interested in attracting resources to meet the demand for credits. As a result, behavior of the households and enterprises remained unchanged. On the one hand, a certain stable share of the incomes was saved in the form of time deposits in Belarusian rubles (the growth rate amounted to 4.2% mom, annual growth rate increased compared to March by 6.4 percentage points to 69.5% yoy). On the other hand, considerable share of the incomes was saved in the form of deposits in hard currency. Their growth rate went up by 4.3 percentage points and amounted to 20.5% yoy. Hence, the existing spread in profitability of ruble and hard currency tools was not enough to further decrease of the share of hard currency deposits and the increase of those of ruble deposits. In April the growth rate of ruble money was lower than the growth rate of broad money (5.9 and 6.3% mom correspondingly). In annual terms, the increase of these indicators was 56.6 and 43.2% yoy correspondingly (55.8 and 40.9% yoy in March).

Credit expansion led to the increase of consumer prices in April by 0.9% and in annual terms the rate of inflation went up by 0.4 percentage points and amounted to 7.2% yoy. In May, Belarusian ruble appreciated to the US dollar by 0.28%. As of May 31, its exchange rate was 2143 BYR/USD.

**Banking sector: Expansion of Russian capital in the banking system of Belarus**

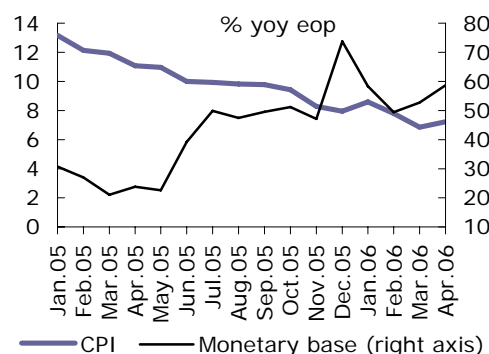
In May, it was announced that the Russian bank Vneshtorgbank that is the second biggest Russian bank in terms of capital and assets declared the decision to buy the control stock of the Belarusian bank Slavneftbank. This deal was approved at the meeting with President Lukashenko and Chairman of the Board of Vneshtorgbank. The entry of this bank to the Belarusian financial sector could be a signal to other Russian banks that show interest in working in the Belarusian financial market. The increase of the presence of Russian capital in Belarusian banking system can lead to emergence of big banks, which will be much less dependent on the influence of the executive power. It could have a positive impact on the prospects of Belarusian banking system development, as it will lead to more intense competition among banks. In addition, foreign capital can become an alternative source of the banking system capitalization. Currently its capitalization is primarily done at the expense of centralized government resources.

**Consolidated Budget\***



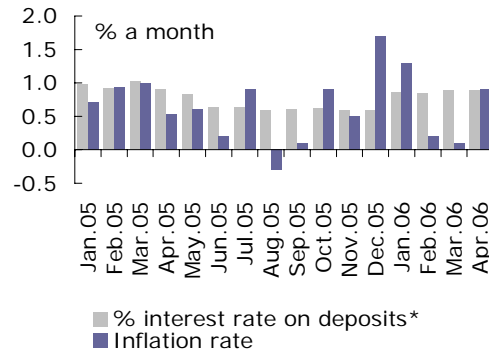
\* 2004 – without innovation funds.  
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

**Monetary Base and CPI**



Source: own calculations based on the Ministry of Statistics and Analysis and the NBB data.

**Monthly Inflation and Interest Rates**



\* Average interest rates on new household deposits in BYR.  
Sources: NBB, own calculations.



<b>Economic Trends</b>		<b>Q2 04</b>	<b>Q3 04</b>	<b>Q4 04</b>	<b>Q1 05</b>	<b>Q2 05</b>	<b>Q3 05</b>	<b>Q4 05</b>	<b>Q1 06</b>	<b>Feb 06</b>	<b>Mar 06</b>	<b>Apr 06</b>
GDP growth	% yoy	11.5	12.1	11.7	9.7	8.2	8.3	10.7	10.9	--	--	
GDP growth	% yoy cum.	10.7	11.2	11.4	9.7	8.9	8.7	9.2	10.9	10.9	10.9	10.3
Industrial production	% yoy cum.	14.8	15.7	15.9	11.4	10.3	9.7	10.4	13.5	13.6	13.5	12.3
Agricultural production	% yoy cum.	5.7	11.4	12.6	12.5	10.1	3.0	2.1	10.1	10.5	10.1	9.5
CPI	% yoy eop	18.4	15.5	14.4	11.9	10.0	9.8	8.0	6.8	7.7	6.8	7.2
PPI	% yoy eop	26.9	22.1	18.8	14.2	12.1	10.5	10.2	8.3	7.3	8.3	8.7
Merchandise export (USD)*	% yoy	37.2	44.9	42.4	21.8	17.2	15.1	11.5	27.5	22.6	21.8	--
Merchandise import (USD)*	% yoy	43.8	43.5	56.0	0.6	3.6	7.8	-5.3	51.1	50.5	46.9	--
Merchandise trade balance (NBB data)	USD m cum.	-541	-931	-2066	452	345	43	-527	-122	6	-122	--
Current account	USD m cum.	-58	-186	-1043	723	945	989	469	--	185	--	--
Current account	% GDP cum	-0.6	-1.1	-4.6	12.1	7.3	4.6	1.6	--	3.9	--	--
International reserves	USD bn eop	539	664	770	975	1130	1189	1297		1323	1290	1262
Monetary Base	% yoy eop	37	39	42	21	39	50	74	53	49	53	58
Lending rate**	% p.a. aop	24	19	18	19	15	14	12	--	13	12	--
Exchange rate (official)	USD aop	2155	2161	2173	2164	2151	2150	2150	2151	2150	2150	2149
Exchange rate (official)	EUR aop	2617	2640	2810	2840	2713	2623	2558	2587	2571	2583	2630

\* Since 2003 – the data of the Ministry of Statistics and Analysis. Other external trade indicators – NBB data.

\*\* Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB, own calculations.

<b>Key Economic Indicators</b>		<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Nominal GDP*	BYR trn	3.026	9.134	17.173	26.613	36.565	49.991	63.678
Nominal GDP	USD bn	5.4	8.9	12.1	14.5	17.7	23.1	29.5
GDP growth	% yoy	3.4	5.8	4.7	5.0	7.0	11.4	9.2
Industrial production	% yoy	10.3	7.8	5.9	4.5	7.1	15.9	10.4
Agricultural production	% yoy	-8.3	9.3	1.8	0.7	6.6	12.6	2.1
CPI	% yoy aop	294	169	61	43	29	18	10
CPI	% yoy eop	251	108	46	35	25	14	8
PPI	% yoy aop	355	186	72	41	38	24	12
PPI	% yoy eop	245	166	41	42	29	19	10
Exports (gs, USD)	% yoy	-8.5	17.6	10.4	8.6	24.0	35.7	15.6
Imports (gs, USD)	% yoy	-19.0	21.0	8.2	9.1	27.1	40.3	4.0
Current account	USD m	-194	-338	-394	-311	-424	-1206	469
Current account	% GDP	-3.6	-3.9	-3.2	-2.1	-2.4	-5.2	1.6
FDI (net)	USD m	443	119	96	453	170	163	303
International reserves	USD m	305	357	347	457	474	770	1297
Fiscal balance**	% GDP	-2.9	-0.6	-1.6	-0.2	-1.6	0.0	-0.6
Internal public debt	% GDP eop	5.7	4.5	6.1	5.4	5.5	5.7	5.8
External debt (total)	% GDP eop	41.8	24.4	24.8	27.0	23.7	21.4	17.9
Monetary base	% yoy eop	204	52	225	32	50	42	74
Exchange rate (official)*	USD aop	572	1035	1394	1784	2075	2160	2154
Exchange rate (official)*	USD eop	925	1213	1580	1920	2156	2170	2152
Spread***	% aop	128.2	44.4	0.8	0.0	0.0	0.0	0.0
Spread***	% eop	189.1	2.8	0.2	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	270	651	1239	1690	2353	2684	2681
Exchange rate (official)*	EUR eop	323	1097	1392	1989	2695	2956	2550

\* On January 1, 2000 the Belarusian ruble was devalued (1:1000). All figures are given in "new" Belarusian rubles.

\*\* The fiscal balances for 1998 included quasi-fiscal financing through commercial banks. Negative values refer to fiscal deficits.

\*\*\* Spread between the black market and official (NBB) exchange rates.

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, own calculations.

**Notes:**

aop	average of period	mom	month-on-month change
avg	average	trn	trillion
bn	billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year change
gs	goods and services	ytd	year-to-date
m	million		